

Message Text

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17

ACTION SS-30

INFO OCT-01 ISO-00 SSO-00 NSCE-00 /031 W

----- 050772

O 220255Z MAR 74

FM AMEMBASSY JAKARTA

TO SECSTATE WASHDC IMMEDIATE 1396

C O N F I D E N T I A L SECTION 1 OF 2 JAKARTA 3514

EXDIS

C O R R E C T E D C O P Y (CORRECTIONS THROUGHOUT ENTIRE TEXT)

PASS AID

E.O. 11652: GDS

TAGS: EAID, ID

SUBJECT: U.S. AID LEVELS

REF: STATE 047882

1. SUMMARY: AMBASSADOR AND AID DIRECTOR INFORMED
INDONESIAN MINISTER OF PLANNING MAR 21 OF REDUCED
U.S. ECONOMIC AID LEVELS. MINISTER SAID NEWS NOT
TOTALLY UNEXPECTED TO HIM. PRESIDENT SUHARTO MAY NOT
HAVE EXPECTED CUT THIS MAGNITUDE. MINISTER ALSO
EXPRESSED CONCERN OVER REACTION OTHER DONORS AND
EXPLAINED COMPLICATIONS OF ELIMINATING PROGRAM AID AND
COUNTING HARDER LOANS AS CONTRIBUTION TO ECONOMIC
DEVELOPMENT. MINISTER PROMISED IMMEDIATE REPORT TO
PRESIDENT SUHARTO. END SUMMARY

2. AMBASSADOR AND USAID DIRECTOR MET WITH WIDJOJO
MORNING OF MAR 21 FOR NEARLY TWO HOURS PURSUANT
REFTEL TO DISCUSS U.S. ECONOMIC ASSISTANCE INTENTIONS.
IT BECAME CLEAR PRESIDENT PREOCCUPIED WITH VISIT
BRITISH QUEEN AND DOMESTIC AFFAIRS; WE DECIDED START WITH
WIDJOJO.

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3. AMBASSADOR RECALLED THAT DEPUTY SECRETARY RUSH AND

ASSISTANT SECRETARY INGERSOLL HAD BOTH DESCRIBED DURING THEIR VISITS PARTICULAR DIFFICULTIES FORESEEN THIS YEAR FOR FOREIGN ASSISTANCE. THESE INCLUDED URGENT NEEDS IN SAHALIAN AFRICA AND BANGLADESH AND SPECIAL PROBLEMS CREATED IN CONGRESS BY ENERGY CRISIS AND BY INCREASING REVENUES OF OIL PRODUCING COUNTRIES INCLUDING INDONESIA. DESPITE THESE CIRCUMSTANCES HE ASSURED WIDJOJO U.S. INTENDS TO CONTINUE TO ASSIST INDONESIA TO FULLEST EXTENT POSSIBLE IN ITS ECONOMIC DEVELOPMENT. AMOUNT FOR FY 74 WILL BE \$68 MILLION IN DL PLUS \$7.8 MILLION IN PL 480 COTTON ALREADY PROGRAMMED. FOR FY 75 FIGURES TO BE INCLUDED IN CONGRESSIONAL PRESENTATION ARE \$60 MILLION DL AND \$116 MILLION PL 480, LATTER, OF COURSE, SUBJECT TO AVAILABILITY OF COMMODITIES. ALTHOUGH THESE FIGURES WILL OF NECESSITY BECOME PUBLIC EARLY IN APRIL, U.S. WILL NOT SEEK TO DRAMATIZE SITUATION OR IMPLY THAT INDONESIA'S NEED FOR EXTERNAL ASSISTANCE IS RAPIDLY ENDING. U.S. ATTACHES IMPORTANCE TO CONTINUATION OF IGGI MECHANISM AND WISHES TO CONTINUE TO PLAY ROLE IN IT. TO EXTENT INDONESIA CAN TAKE LEAD IN THE IGGI IN RECOGNIZING AND RESPONDING TO ITS IMPROVED FINANCIAL PROSPECTS, IT WILL BE EASIER FOR DONOR COUNTRIES TO DEFEND KIND OF ASSISTANCE WHICH DONORS FEEL WILL CONTINUE TO BE NECESSARY.

4. WIDJOJO RESPONDED GRACIOUSLY, SAID HE HAD ATTEMPTED TO PREPARE HIMSELF AND OTHERS FOR JUST SUCH NEWS, THANKED AMBASSADOR FOR HIS EFFORTS IN INDONESIA'S BEHALF, AND SAID HE KNEW HOW DIFFICULT IT MUST BE TO DELIVER INFORMATION OF THIS KIND AS ONE OF HIS FIRST OFFICIAL ACTS. AMBASSADOR TOOK OCCASION TO EMPHASIZE THAT CONTRARY TO SOME CONJECTURES HE HAD HEARD HE HAD NOT COME TO INDONESIA WITH SPECIAL MISSION TO REFLECT CHANGE IN U.S. POLICY. ADJUSTMENT IN AID LEVELS DID NOT RESPRESENT ANY LESSENING OF U.S. INTEREST IN INDONESIA, BUT RATHER AROSE FROM COMBINATION OF NEW CIRCUMSTANCES WITHIN INDONESIA AND IN U.S. AS WELL AS GROWING NEEDS ELSEWHERE IN WORLD.

5. WIDJOJO THEN TURNED TO A REVIEW OF THE GIRURES IN RELATION TO U.S. PLEDGES FOR INDONESIAN FISCAL YEAR
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1973/74 AND 1974/75. WE EXPLAINED THAT WE HAD TO ADMIT CANDIDLY THAT THERE WOULD BE SHORTFALLS IN PLEDGES BECAUSE OF CHANGED CONDITIONS, PARTICULARLY LACK OF PL 480 COTTON. IN COMPARISON OUR PLEDGES THERE WOULD BE A SHORTFALL OF \$43 MILLION IN MEETING NON-FOOD PLEDGE OF \$150 MILLION FOR 1973/74, PLUS, OF COURSE, NO FOOD AID, AND THAT SHORTFALL FOR 1974-75 WOULD BE \$55 MILLION, ASSUMING FULL AMOUNT OF PL 480 NEEDED AND AVAILABLE.

6. FURTHER DISCUSSION BROUGHT OUT FOLLOWING POINTS:

A. PROGRAM AID REQUEST: WIDJOJO SAID THAT GOI RECOGNIZED NEED FOR PROGRAM AID HAD LESSENED, BUT WAS RELUCTANT TO ELIMINATE CATEGORY FROM AID REQUEST. SOME DONORS SEEMED TO PREFER PROGRAM AID, E.G., NETHERLANDS AND GERMANY, AND IT WOULD COMPLICATE MATTERS TO DELETE IT ENTIRELY. IT WAS USEFUL TO INDONESIA AND PROCEEDS COULD BE USED FOR PROJECT PURPOSES. IN THIS CONNECTION WIDJOJO QUESTIONED US CLOSELY ON WHETHER PL 480 AID COULD CONTINUE BE AVAILABLE IF GOI SHOULD ELIMINATE PROGRAM AID FROM REQUEST. WE EXPLAINED SEPARATE LEGISLATIVE BASIS FOR PL 480 AND SOMEWHAT DIFFERENT STANDARDS OF PROGRAMMING AS COMPARED TO DL RESOURCES. WE HAD TO ADMIT FRANKLY PL 480 FIGURE WAS VULNERABLE.

B. ECONOMIC PROSPECTS: WIDJOJO SAID THE GOI FELT IMF HAD EXAGGERATED INCREASE OF \$1.6 BILLION, GOI WAS NOW ESTIMATING INCREASE OF \$851 MILLION. GOI FIGURE ASSUMES PROCUREMENT OF 1.5 MILLION TONS OF FERTILIZER AND 1.2 MILLION TONS OF RICE, BOTH ADMITTEDLY AT VERY HIGH PRICES. OIL AND OTHER EXPORT PRICES COULD COME DOWN AS WELL AS GO UP, IMPORT PRICES ARE RISING, AND THE GOI IS STRONGLY IMPRESSED BY UNCERTAINTIES OF THE WORLD ECONOMY. FURTHER, THE NATIONAL ACCOUNTS TELL ONLY PART OF THE STORY, AND ONE MUST LOOK AT THE ENTIRE ECONOMY IN PERSPECTIVE.

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ACTION SS-30

INFO OCT-01 ISO-00 SSO-00 NSCE-00 /031 W

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O 220255Z MAR 74

FM AMEMBASSY JAKARTA

TO SECSTATE WASHDC IMMEDIATE 1397

C O N F I D E N T I A L SECTION 2 OF 2 JAKARTA 3514

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C. OTHER DONOR:AMBASSADOR NOTED THAT WE FELT AN

OBLIGATION TO INFORM OTHER DONORS OF OUR INTENTIONS PRIOR TO MAKING AID FIGURES PUBLIC IN EARLY APRIL. WE WOULD DO THIS IN AS POSITIVE AND FAVORABLE LIGHT AS POSSIBLE EMPHASIZING OUR INTENTION TO CONTINUE AID. WIDJOJO DID NOT OBJECT, BUT SAID THAT THERE WAS A QUESTION ABOUT THE IMPACT ON OTHERS. THE JAPANESE, IN PARTICULAR, WOULD BE MAKING THEIR DECISION FOR 1974/75 DURING APRIL, AND IT WAS IMPORTANT TO AVOID PREJUDICING A FAVORABLE OUTCOME.

D. HARDER TERMS: WIDJOJO ACKNOWLEDGED THAT INDONESIA CLEARLY HAD TO MOVE TO A NEW STAGE IN ITS AID THINKING, BUT QUESTION WAS ONE OF PACE. THEY HAD NOT UP TO NOW REACHED AGREEMENT WITH THE IBRD, FOR EXAMPLE, ON THE EXTENT TO WHICH IBRD LOANS COULD BE CONSIDERED A SUBSTITUTE FOR IDA RESOURCES, OR WHETHER THEY SHOULD NOT MORE PROPERLY BE CLASSED WITH EXPORT CREDITS. AMBASSADOR SUGGESTED THE POSSIBILITY THAT EX-IM LOANS MIGHT BE CONSIDERED TO COMPENSATE FOR THE SHORTFALL IN AID LOANS. WIDJOJO SAID THE GOI HAD HELD THE LINE FOR SEVERAL YEARS ON WHAT TERMS COULD BE ACCEPTED, AND WERE NOW UNCERTAIN ABOUT EXTENT TO WHICH QUAI-COMMERCIAL CREDITS SHOULD BE USED. HE ALSO EXPRESSED CONCERN OVER ABILITY TO EXERCISE DISCIPLINE OVER SUCH BORROWING ONCE BARRIERS ARE LOWERED. HE ASKED THAT WE DISCUSS THIS MATTER FURTHER WITH
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BAPPENAS STAFF, HOWEVER.

E. INCREASED SELF-RELIANCE: AMBASSADOR NOTED POSSIBILITY THAT INDONESIA COULD MAKE A VIRTUE OF ADVERSITY BY TAKING CREDIT FOR GREATER SELF-RELIANCE IN FINANCING THEIR OWN DEVELOPMENT PROGRAM. WIDJOJO SAID REPELITA II CALLED FOR DECLINING PERCENTAGE OF EXTERNAL FINANCE OF THE DEVELOPMENT PROGRAM ALTHOUGH AN INCREASE IN ABSOLUTE AMOUNT. THIS WOULD BE ACCELERATED IF POSSIBLE,

AND SOME MOVE IN THIS DIRECTION WAS POLITICALLY MANDATORY TO MEET GROWING CRITICISM TO EXCESSIVE RELIANCE ON FOREIGN AID. ON OTHER HAND, IT IS AN UNCERTAIN WORLD, AND INDONESIA WILL NEED HELP FOR SOME TIME TO COME.

F. SUHARTO'S REACTION:WIDJOJO SAID HE HAD ATTEMPTED TO PREPARE SUHARTO FOR SOME REDUCTION IN U.S. ECONOMIC AID, BUT UNFORTUNATELY SUHARTO HAD UNDERSTOOD DEPUTY SECRETARY RUSH TO HAVE GIVEN HIM ASSURANCES CONCERNING ASSISTANCE. AMBASSADOR NOTED THAT SECRETARY RUSH HAD CLEARLY STATED AID TO INDONESIA WOULD FACE PROBLEMS. THERE MAY HAVE BEEN SOME PROBLEM WITH TRANS-

LATION; HE REQUESTED WIDJOJO'S ASSISTANCE IN ASSURING SUHARTO THAT LEVELS WE HAVE DESCRIBED REPRESENT A MAJOR EFFORT ON OUR PART AND THE VERY BEST WE CAN DO UNDER VERY

DIFFICULT CIRCUMSTANCES. TO ILLUSTRATE PROBLEM WITH CONGRESS HE POINTED OUT ESTIMATE OF GOI RESERVES NEARLY

MATCHED TOTAL U.S. WORLDWIDE FOREIGN ECONOMIC AID.

G. MILITARY ASSISTANCE: WIDJOJO THEN INQUIRED CONCERNING OUTLOOK FOR MILITARY ASSISTANCE. AMBASSADOR SAID THAT PAST LEVELS HAD BEEN ON ORDER \$18-19 MILLION PLUS SALES OF WARSHIPS AT NOMINAL PRICES. GRANT MAP RESOURCES FACE PROBLEMS SIMILAR TO ECONOMIC AID PLUS DIFFICULTIES OF CAMBODIAN SUPPORT. U.S. HOPES TO CONTINUE AT ROUGHLY SAME LEVEL BUT THIS MAY BE DIFFICULT. WE HAVE ACCORDINGLY SUGGESTED THAT GOI BEGIN INTRODUCE FSM CREDIT INTO PROGRAM. FIGURE FOR FY 74 IS \$19.9 MILLION, STILL SUBJECT TO ADJUSTMENT BECAUSE OF NEEDS IN CAMBODIA. CONFIDENTIAL

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NO FIGURE IS YET AVAILABLE FOR FY 75.

H. NEXT STEPS: AMBASSADOR'S REQUEST FOR APPOINTMENT WITH PRESIDENT STILL PENDING. USAID DETAILED PROGRAMMING DISCUSSIONS WITH BAPPENAS STAFF RE FY 74 AND FY 75 LOAN PROGRAMS SCHEDULED FOR MAR 22.

7. COMMENT: WIDJOJO WAS CLEARLY PREPARED FOR NEWS OF SOME REDUCTION IN U.S. ASSISTANCE, AND HIS RESPONSE WAS OBVIOUSLY PROFESSIONAL. PRESIDENT SUHARTO'S REACTION, HOWEVER, MAY BE STRONGER. ON SUBSTANTIVE SIDE, WIDJOJO HAS APPARENTLY NOT MADE UP HIS MIND HOW TO RESPOND TO NEW ECONOMIC PROSPECTS IN SPECIFIC TERMS OF ADJUSTMENTS TO AID REQUEST, HOW TO MANAGE IBRD AND QUASI-COMMERCIAL CREDITS, AND SIMILAR ISSUES.

8. MISSION WILL BE SENDING SEPARATE TELEGRAMS WITH RECOMMENDATIONS ON CONSULTATIONS WITH OTHER DONORS AND ON RELATIONS WITH EXIM BANK.

9. IF DEPARTMENT AGREES, THIS SUBJECT MAY NOW BE TAKEN OUT OF EXDIS CHANNEL.
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Message Attributes

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